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MULTISTATE INCOME/FRANCHISE TAX

Illinois fiscal year 2026 budget tax highlights

Tax Alert

Overview

On June 16, 2025, Illinois House Bill 2755 (the "Budget Act") was enacted into law. The Budget Act's tax related provisions include, among other things, the establishment of several tax amnesty programs; a shift from the Joyce to the Finnigan method for combined apportionment; the removal of certain exemptions under the interest expense addback rules; the partial inclusion of Global Intangible Low-Taxed Income ("GILTI") in the Illinois tax base, modification to the sourcing rules for gains from the sale of passthrough entity interests; changes to the sports wagering tax; changes to the sales and use tax nexus requirements for remote sellers and marketplace facilitators; and several developments related to credits and incentives.

This Tax Alert summarizes certain provisions included in the Budget Act.

Tax amnesty programs

- Illinois tax amnesty: The Budget Act establishes a tax amnesty period beginning on October 1, 2025, and ending on November 15, 2025, for all taxes (i.e. income taxes, sales and use taxes, payroll taxes, etc.) owed to the Illinois Department of Revenue for tax periods beginning after June 30, 2018, and ending prior to July 1, 2024. Interest and penalties are waived for tax payments made under the amnesty program.
- Franchise tax and license fee amnesty: The Budget Act establishes a Franchise Tax amnesty period, beginning on October 1, 2025, and ending on November 15, 2025, for unpaid franchise tax or license fee liabilities due to the Secretary of State ending after June 30, 2019, and ending on or before June 30, 2025. Interest and penalties are waived for tax payments made under the amnesty program.
- Remote Retailer Amnesty Program: The Budget Act establishes an amnesty program applicable to transactions sold by a remote retailer. The Remote Retailer amnesty period begins August 1, 2026, and ends on October 31, 2026, and is for unpaid state and local Retailers' Occupation Tax imposed on the sale of tangible personal property sold

to an Illinois customer by a remote retailer during the period January 1, 2021, through June 30, 2026. If the tax was not collected, in lieu of transaction-specific local tax rates, tax will be due at either (1) 9% of the gross receipts from sales of tangible personal property subject to the 6.25% state rate, or (2) 1.75% of the gross receipts from sales of tangible personal property subject to the 1% state rate imposed on food for human consumption off premises. However, tax collected but not remitted in excess of the above rates must be fully remitted in the amount collected. Interest and penalties are waived for tax payments made under the amnesty program.

Income tax changes

- The Budget Act amends Illinois' apportionment rules by transitioning from the Joyce method to the Finnigan method for unitary business groups, effective for tax years ending on or after December 31, 2025.
- The Budget Act removes two key exceptions to the related party addback for interest and intangibles. For tax years ending before December 31, 2025, the addback does not apply where (1) the interest and intangibles are paid to an entity taxed on that income in another state or country (excluding states requiring mandatory unitary reporting), or (2) where the taxpayer can demonstrate that the interest was passed to an unrelated third party and the transaction was conducted at arm's-length terms and not primarily for Illinois tax avoidance. For tax years ending on or after December 31, 2025, these exceptions are eliminated.
- The Budget Act introduces new rules for taxpayers subject to the federal interest deduction limitation under IRC § 163(j). For tax years ending on or after December 31, 2025, disallowed interest is required to be allocated first to related domestic entities and then to foreign entities for purposes of the Illinois addback.
- For tax years ending on or after December 31, 2025, only 50% of GILTI received, deemed received, paid, or deemed paid under IRC § 951A is allowed as a subtraction modification to the taxable income base.
- Gains or losses from the sale of shares in a Subchapter S corporation or an interest in a partnership (excluding investment partnerships as defined in section 1501(a)(11.5)) are allocable to Illinois if the passthrough entity is taxable in the state. Such gains or losses are allocated based on the average of the pass-through entity's Illinois apportionment factor in the year of the sale or exchange and the 2 tax years immediately preceding the year of the sale or exchange. If the pass-through entity was not in existence during both of the preceding 2 years, then only the years in which the pass-through entity was in existence shall be considered when computing the average.

Sports wagering tax

The Budget Act amends the Sports Wagering Act to impose a new per-wager tax on sports wagering activity conducted over the internet or through mobile applications. Effective July 1, 2025, the tax applies to each individual wager placed with a master sports wagering licensee, regardless of outcome or payout.

Remote seller and marketplace facilitator updates

- Effective January 1, 2026, the Illinois Retailers' Occupation Tax and Use Tax ("sales/use tax") remote seller and marketplace facilitator nexus threshold is updated to be determined solely when cumulative gross receipts from sales of tangible personal property to Illinois purchasers are $100,000 or more. Notably, the alternative threshold by making 200 or more transactions within the same period is removed after the

December 31, 2025 sunset date. The cumulative gross receipts threshold applicable to remote sellers and marketplace facilitators is based on the preceding 12-month period evaluated quarterly on the last day of March, June, September, and December.

- As of the effective date of the Budget Act, marketplace facilitators may accept information from their marketplace sellers dictating sales tax treatment and rates of goods sold on behalf of the marketplace seller. When such information is accepted in good faith, the marketplace seller is held harmless when the marketplace facilitator fails to remit the sales/use tax as directed. Similarly, if the marketplace seller provides the marketplace facilitator with incorrect or insufficient information, the marketplace facilitator is held harmless, and the marketplace seller will be liable for any resulting tax due.

Credits and incentives updates

The Budget Act includes new funding, expansion of eligibility, and the creation of new programs to promote economic development in Illinois. Some of the changes include:

- Establishes the Advancing Innovative Manufacturing (AIM) for Illinois Tax Credit Act for qualified manufacturers that make a minimum investment of $10M. The tax credit ranges from 3% - 7% depending upon the size of the investment.
- Expands eligibility of the Economic Development for a Growing Economy Program (EDGE) for companies that make an investment of at least $100M in capital improvements and retain a minimum of 500 full-time employees.
- Expands eligibility for programs such as the Reimagining Energy and Vehicles (REV) Illinois Program and the Manufacturing Illinois Chips for Real Opportunity (MICRO) Program and creates a Quantum Enterprise Zone.
- Provides $500 million in funding for site readiness initiatives, namely the Surplus to Success program and the DCEO Site Readiness Initiative. In addition, approximately $240M of funding was allocated to the Rebuild Illinois Enterprise Grant Program, Prime Sites Capital Program, Tech Innovation Hubs Program, Illinois Work Pre-Apprenticeship Program, and other workforce development initiatives.

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